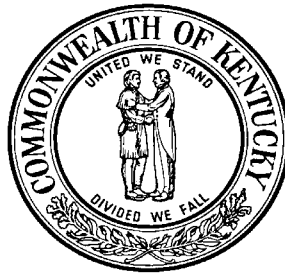


**REPORT OF THE AUDIT OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

August 8, 2002



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Bill Foster, Allen County Sheriff
Members of the Allen County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC Certified Public Accountants, presents the Allen County Sheriff's Settlement - 2001 Taxes.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Allen County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

CARPENTER, MOUNTJOY & BRESSLER, P.S.C
AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ALLEN COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002

Carpenter, Mountjoy & Bressler, PSC has completed the audit of the Sheriff's Settlement - 2001 Taxes for Allen County Sheriff as of August 8, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,784,895 for the districts for 2001 taxes. The Sheriff distributed taxes of \$4,600,063 to the districts for 2001 Taxes. Taxes of \$178 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Deposit Funds Intact on A Daily Basis
- The Sheriff Should Distribute Interest Earned on Tax Collections Monthly

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

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T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Johnny Hobdy, Allen County Judge/Executive

Honorable Bill Foster, Allen County Sheriff

Members of the Allen County Fiscal Court

Independent Auditor's Report

We have audited the Allen County Sheriff's Settlement - 2001 Taxes as of August 8, 2002. This tax settlement is the responsibility of the Allen County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Allen County Sheriff's taxes charged, credited, and paid as of August 8, 2002, in conformity with the modified cash basis of accounting.

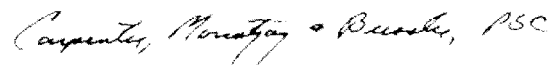
In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Johnny Hobdy, Allen County Judge/Executive
Honorable Bill Foster, Allen County Sheriff
Members of the Allen County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC
Frankfort, Kentucky

Audit fieldwork completed -
September 13, 2002

ALLEN COUNTY
BILL FOSTER, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

August 8, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 355,966	\$ 846,252	\$ 2,116,661	\$ 521,376
Tangible Personal Property	73,195	192,002	312,377	227,918
Intangible Personal Property				17,999
Fire Protection	1,905			
Increased Through Erroneous Tax Assessments	1,803	4,916	8,377	596
Franchise Corporation Taxes	35,264	90,968	161,004	
Additional Billings	342	810	2,036	501
Penalties	3,518	8,329	20,524	5,264
Adjusted to Sheriff's Receipt	(13)	7	(28)	(18)
Gross Chargeable to Sheriff	<u>\$ 471,980</u>	<u>\$ 1,143,284</u>	<u>\$ 2,620,951</u>	<u>\$ 773,636</u>
<u>Credits</u>				
Exonerations	\$ 5,494	\$ 13,829	\$ 27,962	\$ 5,065
Discounts	5,498	13,307	30,155	10,617
Delinquents:				
Real Estate	10,426	24,636	61,926	15,229
Tangible Personal Property	60	158	258	210
Uncollected Franchise Taxes	14	35	77	
Total Credits	<u>\$ 21,492</u>	<u>\$ 51,965</u>	<u>\$ 120,378</u>	<u>\$ 31,121</u>
Net Tax Yield	\$ 450,488	\$ 1,091,319	\$ 2,500,573	\$ 742,515
Less: Commissions *	<u>19,433</u>	<u>45,298</u>	<u>75,017</u>	<u>31,844</u>
Net Taxes Due	\$ 431,055	\$ 1,046,021	\$ 2,425,556	\$ 710,671
Taxes Paid	429,702	1,042,710	2,418,426	709,225
Refunds (Current and Prior Year)	<u>1,341</u>	<u>3,272</u>	<u>7,043</u>	<u>1,406</u>
Due Districts as of		**		
Completion of Fieldwork	<u>\$ 12</u>	<u>\$ 39</u>	<u>\$ 87</u>	<u>\$ 40</u>

* and ** See Page 4

ALLEN COUNTY
BILL FOSTER, SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES
August 8, 2002
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,841,231
4% on	\$	433,091
3% on	\$	2,500,573

** Special Taxing Districts:

Library District	\$	9
Health District		6
Extension District		5
Soil Conservation		2
Ambulance District		17
		<hr/>
Due Districts	\$	<u><u>39</u></u>

The accompanying notes are an integral part of the financial statement.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT

August 8, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 8, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

ALLEN COUNTY
NOTES TO FINANCIAL STATEMENT
August 8, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2001 through April 12, 2002.

Note 4. Interest Income

The Allen County Sheriff earned \$3,692 as interest income on 2001 taxes. As noted in the comments and recommendations section of this report, the Sheriff should distribute monthly the appropriate amount to the school district as required by statute, and the remainder should be used to operate the Sheriff's office. As of August 8, 2002, the Sheriff owes \$692 in interest to the school district and \$117 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Allen County Sheriff collected \$31,352 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Allen County Sheriff collected \$1,350 of advertising costs and \$2,265 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

ALLEN COUNTY
BILL FOSTER, SHERIFF
COMMENTS AND RECOMMENDATIONS

August 8, 2002

STATE LAWS AND REGULATIONS

1) The Sheriff Should Deposit Funds Intact On A Daily Basis

Technical Audit Bulletin 92-002, Section 4 requires the Sheriff to deposit funds intact on a daily basis. During 2001 tax collections, funds were deposited intact. However, abnormal delays (more than three business days) were noted between dates received and dates deposited for tax collections. For tax collections tested, receipts were deposited two business days to twelve business days after being received. We recommend the Sheriff deposit all tax collections intact daily.

Sheriff's Response:

None.

2) The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "... that part of investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2001 tax collections, the Sheriff earned interest of \$3,692 on his tax account. However, the Sheriff did not pay the interest to the board of education or the fee account on a monthly basis. As of August 8, 2002, the Sheriff owes \$692 in interest to the Allen County Board of Education and \$117 in interest to his fee account. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the interest due to the school and fee account on a monthly basis.

Sheriff's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

The conditions described above are considered reportable conditions and material weaknesses pursuant to professional auditing standards.

PRIOR YEAR:

In the prior year audit report, the Auditor of Public Accounts made the following comments and recommendations:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral of \$354,718 To Protect Deposits

This finding has been corrected.

- The Sheriff Should Deposit Funds Intact On A Daily Basis

This finding has not been corrected.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This finding has not been corrected.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Carpenter, Mountjoy & Bressler

Certified Public Accountants and Consultants

To the People of Kentucky

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Members of the Allen County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Allen County Sheriff's Settlement - 2001 Taxes as of August 8, 2002, and have issued our report thereon dated September 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Allen County Sheriff's Settlement - 2001 Taxes as of August 8, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Allen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Funds Intact On A Daily Basis
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

Carpenter, Mountjoy & Bressler, PSC

Carpenter, Mountjoy & Bressler, PSC
Frankfort, Kentucky

Audit fieldwork completed -
September 13, 2002

